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NOMINATION OF VINCENT PURITANO TO BE ASSISTANT SECRETARY OF DEFENSE

HEARING

BEFORE THE

COMMITTEE ON ARMED SERVICES UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

NOMINATION OF

VINCENT PURITANO TO BE AN ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER)

FEBRUARY 17, 1983

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NOMINATION OF VINCENT PURITANO TO BE ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER)

THURSDAY, FEBRUARY 17, 1983

U.S. SENATE,
COMMITTEE ON SENATE ARMED SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 2:20 p.m., in room 222, Russell Senate Office Building, Senator John W. Warner presiding.

Members present: Senators Warner, Thurmond, Stennis, and Bingaman.

Staff present: James G. Roche, minority staff director; Christine C. Dauth, chief clerk; George K. Johnson, Jr. and David S. Lyles, professional staff members; and Tamara L. Farnsworth, staff assistant.

Also present: Dennis P. Sharon, assistant to Senator Goldwater; John Campbell, assistant to Senator Warner; Ron Kelly, assistant to Senator Humphrey; Greg Pallas, assistant to Senator Exon; and Kathleen Callahan, assistant to Senator Bingaman.

OPENING STATEMENT BY SENATOR JOHN W. WARNER, PRESIDING

Senator WARNER. The hearing will now come to order.

I apologize to the nominee and those in attendance for being late. I was drafted, but willingly, to appear as chairman. I intended as a Member from Virginia to participate.

The committee meets this afternoon to consider the nomination of Vincent Puritano to be Secretary of Defense [Comptroller].

We are pleased to have you today. Are you joined by members of your family?

Mr. PURITANO. My wife Margaret and my boys, Vincent and Charles.

Senator WARNER. We welcome them. This will be a memorable occasion.

The nominee has served for virtually his entire career in the Government. He is a veteran of the Korean war, a veteran of 6 years in the Air Force, 9 years service with the State Department in the Agency for International Development, 9 years in the Office of Management and Budget in the Executive Office of the President, 3 years with the Central Intelligence Agency, and in the last 2 years served in the Department of Defense as executive assistant to the Deputy Secretary.

The nominee has received the CIA Intelligence Medal of Merit and the Senior Executive Service Performance Award. He is also the recipient of the Vietnam Civilian Service Medal from the State Department, and the Department of Defense Medal for Distinguished Service.

I understand that the candidate would like to note for the record that he has met with the staff of the committee to review his financial holdings. I am sure he will be in compliance with the committee's requirement to avoid any conflict of interest.

I further state for the record the nominee does not have any financial interest in any Federal contracts. Therefore, he appears to be in full accord with the Federal law regarding conflict of interest.

We are pleased to have the nominee with us today.

[The nomination reference and biographical sketch follow:]

NOMINATION REFERENCE

AS IN EXECUTIVE SESSION,
SENATE OF THE UNITED STATES,
February 2, 1983.

Ordered, That the following nomination be referred to the Committee on Armed Services:

Vincent Puritano, of Virginia, to be an Assistant Secretary of Defense, vice Jack R. Borsting, resigned.

BIOGRAPHICAL SKETCH OF VINCENT PURITANO

January 1981 to date: The Executive Assistant to the Deputy Secretary of Defense. Examined a wide range of Defense programs and management issues of major concern to the Secretary of Defense. Organized and chaired the DoD task force to review and improve the Defense Acquisition System which resulted in the 32 "Carlucci Initiatives." Chaired another task force which improved the Programming and Budgeting System. Managed the DoD-wide planning, programming and budgeting cycle for the Deputy Secretary for two years, including the DRB summer program review of all DoD programs. Serves as Executive Secretary of the Defense Resources Board and the DoD Management Improvement Council, the two senior level Civilian/military review and decision bodies designed to better manage defense programs and allocate overall DoD resources.

1978–1980: Special Assistant to Deputy Director, CIA, concentrating on long-range planning and financial management issues. Supervised CIA Executive Committee Staff; led Agency long-range planning effort, guided revision of personnel planning and management system, managed Deputy Director's reviews of top priority programs.

1969–1978: Office of Management and Budget, Executive Office of the President. As Deputy Associate Director was responsible for assuring intergovernmental and interagency policy, management and budget issues addressed by agencies, OMB and the White House. Led OMB teams to review federal planning requirements for state/local grants, for Vietnam Refugee Placement Program, for creation of federal energy offices during energy crisis; managed interagency projects on financial information systems, agency decentralization efforts, simplification of financial grant systems; and worked with state and local officials on better managing federal, state, and local policies, budgets and programs.

1960–1969: U.S. State Department (AID), Office of Management Planning, Far East Program Office, and Foreign Service assignments in Vietnam, Korea and Thailand. Deputy and Acting Director for Vietnam Economic Aid (Refugees, Health, Agriculture, Public Administration, Education Projects) during 1964–1968.

1959–1960: Management analyst, New York State Thruway Authority; 1955–1957, Cost Analyst, Allegheny Ludlum Steel Corp. Watervliet, New York.

Military: 1947–1953, U.S. Air Force, Korean War veteran.

Education: B.S. Economics, 1959 cum laude, Siena College, Loudonville, N.Y. (on G.I. Bill); M.B.A., 1960 N.Y.U. Graduate School on Rockefeller Fellowship; M.P.A., Government, JFK Graduate School, Harvard University, 1969. M.I.T., six weeks, 1968, Foreign Economic Policy; Harvard, two weeks, 1979, National Security Policy. Lecturer at National Defense University, Army War College, Defense Intelligence School and Naval War Cllege on DoD resource allocation, planning and budgeting.

Awards: Numerous Letters of Commendation, awarded CIA Intelligence Medal of Merit and SES Performance Award; accelerated promotions in State

Department and OMB; Vietnam Civilian Service Medal from State Department; DoD Medal for Distinguished Public Service, from Secretary Weinberger in March 1982.

Personal: Born January 10, 1930, Troy, New York. Resident of Virginia for the last 22 years, currently resides in Annandale, Virginia. Past President of local civic association. Coached soccer three years for Annandale Boys Club and High School freshmen.

Senator WARNER. We will now turn to our senior colleague, Senator Stennis, for any comments he might wish to make.

Senator STENNIS. Mr. Chairman, I want to congratulate the nominee for his fine record, for his attainments, for being nominated for this position. It is a highly important position—not recognized by all—but those of us here who work on this committee consider it an extremely important position.

You have a good record and approval of your nomination is indicated by the fact that no one has shown up here in opposition. I appreciate the fact that you are willing to take a chance and join the battle here. We welcome you and wish you well.

Senator WARNER. We have the privilege of having present a new member of our committee, Mr. Bingaman.

Mr. Bingaman, do you have any comment?

Senator BINGAMAN. Mr. Chairman, I concur with what Senator Stennis said.

I think you are an excellent nominee for the position and wish you well. I know of no question that has been raised about your qualifications or abilities. I congratulate you also.

Mr. PURITANO. Thank you, sir. I appreciate that.

Senator WARNER. Mr. Puritano, we will be pleased to hear from you.

STATEMENT OF VINCENT PURITANO

Mr. PURITANO. I am indeed honored to be nominated by the President of the United States to this very important position. Indeed I am honored to be reviewed by this committee and if you find me a valid candidate and do so state, I pledge to the fullest of my ability to carry out the responsibility of that position.

I think the job as Comptroller of the Department of Defense at this particular time is probably one of the most crucial jobs in the Government. I think we all want a strong defense. I think we all want a strong defense at the most effective cost.

I will do everything in my power, based on my background and experience, to assure that the second part of that goal, at the most effective cost, is met in the best way possible.

I am aware of the comments in the press about the necessity to do much better in the economic and efficient management of the Department of Defense. I think that is part of the role of the Comptroller. I expect to be as aggressive and innovative as possible in carrying out that role in the Department of Defense.

I also truly believe it is just as important in the legislative as it is in the executive branch to work jointly to assure that goal is met. I will do it to the best of my ability and be responsible to the committee for everything that is within my responsibility.

Senator WARNER. I appreciate those comments. I hope you post a sign in your office that says "Waste, inefficiency, and fraud are the

worst enemies of the Department of Defense today," and that you are going to wage all out war against them.

Mr. PURITANO. Yes, sir, I will use all the authority and responsibility in my position to do so. The Comptroller has a very important role in the Department of Defense's planning process, programing process, budgeting process, and management process. I plan fully to carry that role. The buck will stop here.

Senator WARNER. I think Chairman Stennis will join me in saying that the American public, while they complain now and then, are still for a strong defense. The thing that upsets them the most is when they read about cases of waste, inefficiency and occasionally fraud.

Mr. PURITANO. Sir, we are well aware of that. As you know, the Department of Defense has taken a number of actions in this area.

We have created an Inspector General. We have expanded his staff. We have a large contract auditing agency which will be under the responsibility of the Comptroller and I plan to spend a lot of time in that area. We have taken a number of important initiatives to make acquisition more efficient. We plan to wage a continuing war on fraud, waste, and abuse in the Department of Defense.

Senator WARNER. Would you briefly describe some of your responsibilities in your most recent post as executive assistant to the Deputy Secretary?

Mr. PURITANO. Yes, sir. I was asked to come to the department by the Secretary and Deputy Secretary to help them manage the Department of Defense by focusing on two or three key areas.

The first area they asked me to look at was the entire planning, programing and budgeting system in the Department of Defense. I led a task force within 2 weeks after arriving that reached some major conclusions within 30 days. We made a number of recommendations to the Secretary and Deputy Secretary.

We concentrated on assuring that long-range planning would be done much better and be improved. To that end, Defense guidance is being prepared to assure that the long-range planning process is well done. As part of my recommendation, we also decided to streamline the programing process and set up a much improved summary review of all Defense programs.

We also expanded and gave an important leadership role to the Defense Resources Board which consists of the Deputy Secretary as chairman, the two Under Secretaries, the Chairman, JCS, and the four Service Chiefs and the Assistant Secretaries. It is, in effect, the top corporate review body in the Department of Defense. It reviews the entire DOD program including all major weapons systems.

After I finished that job, the Secretary asked me to look at the entire defense acquisition system. I led another task force. In 30 to 45 days we came up with a list of recommendations and conclusions, 31 to be exact. We later added another one to make it 32.

They became known as the "Carlucci Initiatives." These are initiatives that are now being implemented throughout the Department with the goal of improving the defense weapons acquisition process, concentrating on budgeting at the most likely cost, concentrating on better weapon system cost estimates, streamlining the contracting process, expanding multiyear procurement, coming up with more economical production rates, and generally cutting redtape.

As a result of the work of this task force, we are pushing these initiatives throughout the Department.

I have seen recent reports and studies, both externally and internally, that make me believe we are on the right track. It is going to take a lot of doing to turn around a 30-year-old acquisition process, but that is what we are doing and that is what I was concentrating on during my first 2 years in DOD.

Senator WARNER. If I might interject, it would be helpful if you would supplement for the record the entire response to that question.

Mr. PURITANO. Yes, sir.

Senator WARNER. As you know, this record will be printed and as such becomes an important part of your portfolio, so you can add what you think is necessary.

What suggestions would you make about the changes in the contracting practices of the Department of Defense?

Mr. PURITANO. Well, sir, we have to do better in cost estimating, both in the precontract and negotiation stage and post-contract stage.

We have to get more independent cost estimates throughout the process and compare them with the contractors' costing. We have to do better in auditing contracts and particularly take a look at the overhead cost and recurring costs and assume they have been properly charged to the Federal Government.

I think the contracting process needs constant vigilance and an atmosphere of constantly improving the techniques that we use. It means obtaining good staff, improving, and better training of that staff. It includes improving the reporting systems, some of which has been laid on us by this committee and Congress, in monitoring procurement costs and performance.

It means improving the Department's acquisition review board, the DSARC, and doing a better job in reviewing cost estimates before the weapon system are agreed upon. All of these areas are an important responsibility of the Comptroller.

[The information followed:]

The problems with DoD acquisition are broader than just the contracting problem. As I mentioned earlier, in early 1981, I led a task force that made a major and accelerated review of the DoD acquisition process. My task force came to the conclusion that a grand scale attack was needed to reform the entire Defense weapons acquisition process and not just an isolated recommendation or two.

Major reforms have been implemented and are underway. At the request of various Defense policy and financial publications, I wrote the following article explaining the problems, need for reform, and specific actions necessary. I submit it for the record.

[The article follows:]

GETTING OURSELVES TOGETHER ON SYSTEMS ACQUISITION

(By Vincent Puritano)

On my first day in the Pentagon, the new Deputy Secretary of Defense Frank Carlucci said to me ". . . *if Weinberger and I do nothing else in these next four years except to straighten out the weapons acquisition system, we will have had a successful tour. . . .*"

The new Reagan Administration had chosen Carlucci and Secretary of Defense Caspar Weinberger with the intent, among other things, on improving the problem-riddled DoD process whereby major systems are acquired. Moreover, they meant to do it soon.

In March, less than two months into the new Administration, the Deputy Secretary directed me to lead a review of the acquisition process and to report back with recommendations within 30 days. This assessment was launched while I was completing a similar one on the Planning, Programming, and Budgeting System (PPBS). The results of these two assessments would impact on each other, since budgeting and weapons acquisition are intertwined—even though they have not always been adequately treated as such—and because there are inherent problems in coordinating the two processes.

THE APRIL 30 ANNOUNCEMENT

On April 30, 1981, Secretary of Defense Weinberger announced that decisions have been made on 31 recommendations and issues to reduce costs and improve the acquisition process throughout the Department of Defense. He also announced a charter of acquisition management principles.

The announcement followed one month after Secretary Weinberger issued a statement on significant changes in the Planning, Programming, and Budgeting System, reflecting a shift to greater emphasis on long-range strategic planning, more responsibility to the services, decentralization, closer attention to cost savings and efficiencies, and general streamlining of the PPBS.

In a decision memorandum to Department of Defense officials, Deputy Secretary of Defense Carlucci said recommendations made for improving the acquisition process indicated a need "to make changes both in the acquisition philosophy and the acquisition process itself. We are convinced that we have now a historic and unique opportunity to significantly improve the Defense acquisition system."

Mr. Carlucci emphasized that the primary objectives in streamlining the DoD acquisition process are reducing costs and shortening the acquisition time.

"The Secretary and I are determined to reduce substantially cost overruns, deploy adequate quantities of needed systems that are operationally effective and ready, and do this in the shortest possible time," Mr. Carlucci stated.

Mr. Carlucci also pointed out, "While DoD should be tough in contract negotiations as part of the buyer-seller relationship, this does not mean that relationships between management and industry should necessarily be adversarial. Industry and government have a shared responsibility and must assume a new spirit of cooperation. A healthy, innovative, and competitive industrial capability is a primary national objective. I direct all top DoD management, in the Office of the Secretary of Defense, Joint Chiefs of Staff, and in the services, to ensure this is understood at all levels."

The Secretary and Deputy Secretary had decided to make far-reaching changes in the Defense acquisition management philosophy as well as in the acquisition process itself.

THE 30-DAY ASSESSMENT

The ultimate aims of the 30-day acquisition review were: to reduce costs by looking for substantial and real savings in the acquisition of major weapons systems; improve the acquisition process and make it more efficient and more effective; increase the stability in our programs so that long-range service program funding is more predictable; assure that the acquisition system decisions are closely coordinated and in consonance with the PPB decisions; require that appropriate long-range business strategies and planning tools are put in place to reduce unit costs; and increase the quality while decreasing the delivery time of military hardware and civilian services.

All major OSD offices, the services, and the logistics commands were represented on the steering group chaired by the author that conducted the study and on the five teams that tackled different parts of the problem. Previous reports by consultants, the Blue Ribbon Panel, the Defense Science Board, and others were considered, as were viewpoints from the General Accounting Office, Congress, private industry, and many Department of Defense agencies. Group members also drew on their own experiences, and current and previous officials were interviewed. Working under tight deadlines with much interaction and discussion among the groups, in 30 days the steering and working groups made 23 recommendations to the Secretary and Deputy Secretary and presented analysis and options on eight other major issues.

THE 31 DECISIONS

There was broad consensus among all the teams that the acquisition process needed major repair. The box on page 12 summarizes the problem as seen from

the various perspectives of the Pentagon, Congress, the services, program managers, and defense industry. One could summarize all those problems by saying in general, the process takes too long, costs too much, is too complicated, and is not very efficient.

The 31 recommendations and issues attempted to address all the major problems in the system. It was recognized early in the assessment that the major recommendations were not new but had been made over and over again through the years. But nothing seemed to happen. The complaints continued to reapppear from all sides. No one, or 10, or 20 recommendations could change the 30-year-old acquisition system. It needed a major, comprehensive attack on all the problems with full top management backing and commitment to stick with it to assure that something did happen this time. The 31 decisions, summarized in the following four major categories, are Secretary Weinberger's and Deputy Secretary Carlucci's commitment to get that major change.

REDUCING ACQUISITION COSTS

Program instability and other factors—many of them procedural—combine to make system costs higher than they would otherwise be. Some of these factors encourage low cost estimating at the outset of a program, inevitably leading to cost overruns later on. Moreover, existing rules sometimes make it difficult for industry to do as well as it might for the Department of Defense.

Program Stability.—The cost, both in time and money, of program instability can be seen in the December 1980 Selected Acquisition Reports (SARs) for 47 major programs. These SARs reflected a 129 percent cost growth over the original Milestone II estimates.

Reasons for the cost growth were: economic or inflation (27 percent); quantity changes (26 percent); estimating changes (18 percent); schedule changes (15 percent); support changes (7 percent); engineering changes (5 percent). Forty-one percent of all cost growth was due to quantity and schedule changes.

Of the 47 programs, 19 had quantity increases, 20 had quantity decreases, and only eight were unchanged. Schedule changes resulted in reduced costs on four programs and increased costs on 41. The most common cause for these changes was financial. Budget levels and relative priorities of competing programs forced tough decisions to terminate programs, reduce the number of weapons, stretch the development program, delay planned production, or stretch the planned buy.

As a result of the April 30 decisions, we will henceforth plan to fully fund the R&D procurement of major systems at levels necessary to protect the acquisition schedule. We will limit stretchouts due to funding constraints except when mandated by the Secretary of Defense or by Congress. In general, the only changes should be those resulting from changed requirements or from development problems.

While this approach does reduce budget flexibility, it will save money and time by stabilizing schedules, quantities, and production rates. Our ability to plan for force modernization will also be enhanced.

Multiyear Contracting.—Inflexible adherence to the traditional year-by-year approach to procurements through annual appropriations has denied us certain efficiences and economies. It has also added unnecessarily to uncertainty and administrative costs.

We believe it essential that the Department of Defense be able to use a multiyear procurement approach, with the programs in which it is to be employed selected on a case-by-case basis following analysis of the benefits and the costs. Multiyear procurement could result in average dollar savings of 10 to 20 percent in unit procurement cost through improved economies and efficiencies in production processes, economy-of-scale lot buying, decreased financial borrowing costs, better utilization of industrial facilities, and a reduction in the administrative burden of placing and administering contracts. In addition, the stimulated investment in production equipment will result in lower-defect, higher-quality products. The market stability will also enhance the continuity of subcontractor supply lines and thereby decrease acquisition time. Surge capability will be improved.

There are some disadvantages. This funding technique fences in money and commits future Congresses and future Secretaries of Defense. If used to excess it would significantly reduce the flexibility of the Secretary to respond to unforeseen changes in the external threat. If a multiyear procurement were used to lock in a borderline program, costs would be increased if the program were cancelled.

To avoid these potential disadvantages, the following criteria were recommended as general guidelines for screening potential multiyear candidates: (1) significant benefit to the government; (2) stability of requirements, configuration, and funding; and (3) degree of confidence in cost estimates and contractor capabilities.

Lower Administrative Costs.—Over the years, the tendency of a bureaucracy to take precautions has expanded the paperwork associated with a procurement. The desire to avoid the slightest possibility of criticism has led to unnecessarily cumbersome safeguards for the public interest—ironically thereby thwarting that interest to a certain extent since some of these procedures make little economic sense.

In 1974, for example, less stringent contract procedures were established for purchases under $10,000. The ceiling has continued even though the $10,000 item of 1974 costs nearly twice that amount today. The assessment recommended that the limit be raised to $25,000. Similarly, other proposals would raise thresholds in other areas of acquisition.

These actions would provide relief from unnecessary paperwork, cut administrative lead times and costs, and support far more efficient government cash flow management. This can be done while still providing ample safeguards for the public interest.

The current acquisition directive for major systems refers to 114 related directives and instructions. Each new directive requires paperwork, man-hours, and other costs in order to comply with it. A number of studies indicate that contractually-imposed management systems and data requirements cost eight cents out of every contract dollar. A team has been appointed to identify substantial reductions in the number of directives and the amount of documentation required in contracts.

Capital Investment.—Productivity in the defense sector of the US economy has been lagging, in large part, because of low levels of capital investment compared to US manufacturing in general. Cash flow problems, tax policy, high interest rates, and low return on investment tend to limit available investment capital. Industry views low profits and program instability as precluding investment in capital equipment. This situation has two major implications: a tendency to shift from defense to commercial business, and a decrease in funds available to improve its facilities and capability to handle defense business.

The Secretary of Defense made decisions on a number of actions to encourage capital investment.

Strong DoD support to the Administration's legislative intiatives to permit more rapid capital equipment depreciation.

Structure contracts to permit companies to share in cost reductions resulting from productivity investments; modify the Defense Acquisition Regulation (DAR) profit formula; allow for award fees inversely proportional to maintainability costs.

Increase use and frequency of milestone billings and advanced funding; expedite paying cycle.

Provide for negotiation of profit levels commensurate with risk and contractor investment; ensure that recent profit policy changes are implemented at all levels.

Instruct the services of the need to grant equitable Economic Price Adjustment (EPA) clauses in all appropriate procurements; contract price adjustments made in accordance with EPA provisions should recognize the impact of inflation on profits; ensure that these clauses are extended to subcontractors.

Increase emphasis on Manufacturing Technology Programs to increase productivity in defense industries.

Work to repeal the Vinson-Trammell Act, which places a profit ceiling on aircraft and ship procurements.

Economic Production Rates.—The cost and time needed to put a weapon system into the field can be reduced by establishing and sustaining economic rates of production—i.e., the rate at which unit cost does not significantly decrease with further rate increases. Tight budgets and strong competition between programs have forced many programs to accept funding levels in the budget that do not sustain an economic rate of production.

A commitment to economic production rates cannot rule out sound arguments for lower (or higher) rates. For example, the services may wish to stretch a program over a number of years in order to preserve a "warm" production base to permit rapid mobilization or to meet a crisis or war.

Hereafter, Defense policy will require the services to fund programs at economic rates or else justify any differences during budget reviews.

Realistic Budgeting.—Intentionally low cost estimates are prime contributors to apparent cost growth. Program costs are sometimes purposely understated either because DoD has forced a program to fit available funding rather than the funding required to do the job or because contractors purposely lowered their cost estimates to win a contract, hoping to recover costs on follow-on contracts. Either practice is referred to as "buying in."

When the actual costs become apparent, DoD is severely criticized for cost overruns, and there are insufficient funds available to procure at economic production rates. Further, the negotiated contract cost does not include future engineering changes or post-contract award negotiations which can drive costs higher.

The solution, as the Secretary sees it, is to require the services to budget to most likely or expected costs, including predictable cost increases due to risk, instead of to the contractually agreed-upon cost. Incentives would be provided for acquisition officers and for industry to make and use realistic estimates.

Some problems are foreseen in determining if a contractor is providing realistic estimates, and there may be political difficulties in rejecting bids that project prices lower than costs. It will also be difficult to budget funding greater than publicly-known contractual requirements.

The advantages, however, outweigh these considerations. They include less cost growth, more realistic long-term budgeting, and better program stability.

A related problem is budgeting for inflation. In recent years, inflation predictions have been much less than the actual inflation that came to pass. The situation has been most severe in major weapon programs that spend out slowly and extend into those years when inflation estimates have been poorest. The result is that unpredicted inflation has cut heavily into real programs by as much as six or seven billion dollars a year. In addition to the serious underfunding of major weapons and other purchases, DoD is charged with poor management because of the amount of cost growth in current dollars that it must report.

Shortening Acquisition Times

Preplanned Product Improvement.—A major factor in the long time it takes to field a new system has been the "revolutionary" philosophy of development and acquisition, which reaches for new and untried technology at the outer limits of the state of the art to meet a military threat. This approach does offer potentially dramatic payoffs, but frequently it ends up with larger cost increases and schedule slippage as "unknown unknowns" are confronted.

A wiser direction is the evolutionary approach, an alternative that minimizes technological risk but which consciously insert advanced technology into a program through planned upgrades of deployed subsystems. In this manner, the lead time to field technological advances can be shortened, while an aggressive scheduled fielding of performance improvements can be expected during the service life of the system. This concept is called Preplanned Product Improvement (P^3I) and is commonly used in commercial industry.

The Secretary's decision is that most new and existing systems should be partitioned for performance growth through the application of sequential upgrades to key subsystems in order to reduce development risk and take best advantage of technological advance.

The advantage is that the Department of Defense can reduce acquisition time, reduce development risk and cost, and enhance fielded performance through the deployment of upgrades. A revolutionary approach can always be adopted when, and if, the demands of a threat or other compelling military needs require such an approach.

Front-End Planning.—Time can be saved in the acquisition process by emphasizing reliability and testing up front and eliminating lengthy and costly problem identification and correction efforts. This also allows realistic concurrent development and operational testing.

Doing this, however, requires an increase in funding for more testing in the early stages of program development. Acquisition strategies will have to take that into account.

SUPPORT AND READINESS

As a result of recurring problems with weapon system support-ability, acquisition policies were recently revised to emphasize support issues, including reliability, maintenance, spares, test equipment, and maintenance manpower. These

policies are generally sound, and the Secretary has reaffirmed them. Improvement in readiness is a major objective of the Administration. Policy, therefore, will stress delivering equipment to the troops with reliability and readiness designed in.

Contractor Incentives.—Industry has said that even though there is more attention paid to support-ability in DoD solicitations, there is a widepread belief that performance and schedule are DoD's principal objectives. There is a need for industry to apply more of its design talents to reducing reliability and support problems. Accordingly, DoD will work with the services to provide incentives to contractors to improve supportability of their systems.

Make Decision Early.—The new focus on shortening the development process is potentially in conflict with initiatives to improve reliability and support. Whereas the fastest acquisition approach involves initiating production prior to test of development models, the highest confidence of achieving reliability and other support goals in fielded hardware involves iterative design and testing before high-rate production. A balance must be struck on each program. Many of the serious problems in current systems result from not striking the correct balance.

For those systems which are run on a fast track, there are requirements for additional early funding to design in reliability and support characteristics—including the need to pay this price in parallel or competing developments. Additional in-house talent must be brought to bear, and industry incentives need to be applied to avoid previously experienced support problems.

Because of the relative priority of reliability and support efforts compared to performance objectives and the current shortage of in-house talent to address these problems, specific top management attention, priority, and stress on support resources is needed.

The Secretary decided to modify the current acquisition procedures to require a specific early decision (around Milestone I on many programs) on the approach, additional resources, and incentives which will be used to balance the risks in the reliability and support area on each program. The vehicle for decision can be an acquisition strategy prepared by the program manager. This should include an option which goes as far as possible in extra efforts (design, parallel testing. contractual) to increase the likelihood of achievement of support objectives on concurrent programs.

IMPROVING THE DSARC PROCESS

A major complaint by the services and service program managers was that the Defense Systems Acquisition Review Council (DSARC) milestone process itself was primarily to blame for the excess amount of paperwork and reviews for the minute and detailed management of program technical issues by central OSD staffs. Proliferation of reporting requirements of regulations both within OSD and in the services all flowed from the detailed milestone review process which provided for four discrete Secretary of Defense decision points on all major weapon systems.

After thorough review and discussion of the four alternatives provided by the steering group, the Secretary and Deputy Secretary decided to reduce the Secretary's decision milestones for major systems to two and to decentralize the other two to Service Secretaries. The two remaining OSD decision milestones ensure full Secretary of Defense involvement in major program initiation and improved program definition for go-ahead.

A joint OSD-R&E service task force is now designing the specific decision points and requirements for the two secretarial milestones. The first Secretary of Defense decision point will be designed to serve as a full DSARC/Secretary of Defense review and approval of major program initiation including threat, weapons concept, risk and schedule, readiness and affordability goals. The Program Go-Ahead—the second Secretary of Defense decision point—will be used to approve/disapprove a service-proposed action and program plan including full-scale development and production, the program plan for test and evaluation, support and readiness, and the total acquisition strategy.

The goal in this decision was to reduce the administrative burden by fewer OSD level reviews, to link reviews more closely to major expenditure decision points, to delay Secretary of Defense program commitment until program technical, performance, and cost factors are more accurately determined, to provide more efficient transition between development and production, and to decentralize more authority to the services.

DSARC and PPBS.—It has been the perception that a DSARC endorsement and subsequent Secretary of Defense approval commits the Secretary of Defense/service to fund the program as approved. This has led to confusion as to program status and stability. The DSARC process reviews single programs at significant milestones to determine readiness to proceed to the next phase. It is not feasible in that context to assess the financing of a major program vis a vis other Defense requirements. In contrast, the PPBS addresses all programs within a resource allocation framework without an in-depth review of technical issues and program structure. This "disconnect," the lack of explicit resource commitment (including support and manpower) resulting from a successful DSARC review and subsequent Secretary of Defense approval, is frequently cited as a flaw in the acquisition process.

To resolve this interface problem, the Secretary decided that programs reviewed by the DSARC will be accompanied by assurance that sufficient agreed-to resources are in the Five Year Defense Program (FYDP) and in the extended planning documents or can be reprogrammed to execute the program as recommended.

IMPLEMENTING THE DECISIONS

The acquisition process has been studied many times by many organizations. Most of the recommendations presented by the steering group have been made before. However, few of these recommendations have been implemented. For instance, a recent Navy acquisition study of the implementation status of past acquisition process studies found that of 50 recurrent recommendations, some progress is perceived to have occurred in 29 and almost no progress is perceived to have occurred in the remainder.

A difficulty with implementing recommendations regarding the acquisition process is the great number of players within and outside of DoD involved to make implementation succeed. This requires persistent, intensive, follow-up effort at all levels of management to make sure that the recommendations really do take hold. Since decisions will lead to major changes to the process and even to DoD organizations and their roles, it will be difficult for the existing DoD organizations to execute changes without high-level attention by the Secretary of Defense and Deputy Secretary of Defense. Elimination of the complexity inherent in the current process is masked unless the many different types of changes are considered in terms of the aggregate administrative and reporting load generated.

To insure implementation of the improvements package, Secretary Weinberger assigned the Undersecretary of Defense for Research, Engineering, and Acquisition to follow up on the decisions and to make sure nothing falls between the cracks. Furthermore, the Secretary of Defense and the Deputy Secretary of Defense will be receiving progress reports continually in various areas.

In his memo to Defense officials, Deputy Secretary Carlucci put it this way:

Implementation of the decisions announced in this memorandum is as important as the decisions themselves. Many decisions, even those within DoD's authority, will take time to implement fully. A large number of DoD managers will have to take part on a world-wide basis.

STATUS—WHERE WE ARE NOW

As of July 31, 1981, when this article was written, a number of major actions already had been taken to implement the 31 acquisition decisions.

The most important of these was the approval by Congress of an amendment to the FY 82 DoD Authorization Bill (Section 909) that set the policy for congressional support of DoD multiyear contracting. Extended use of multiyear contracting will achieve large savings for the US Government, improve industrial production processes, enhance competition for government contracts, provide program stability for large and expensive weapons systems, and reduce administrative burdens in the contracting process. The services and OSD staffs are developing multiyear programs for FY 82 and FY 83 that could save up to $800 million in out-year costs.

The House Authorization Bill also contained another important amendment (Section 903) that raised dollar thresholds for the use of simplified small purchase procedures from $10,000 set in 1974 to $25,000; contractor submission and certifications from $10,000 set in 1962 to $500,000; and the requirement for Service Secretaries to authorize negotiations for R&E involving more than $100,000 set in 1962 to $5 million.

Another little noticed but important amendment to the FY 82 Act (Section 901) provides DoD authority to engage in basic and applied research by grant as well as by contract.

In the weeks following the April 30 decisions, a number of follow-on procurement policies were promulgated. On June 1, 1981, a Deputy Secretary of Defense memorandum established a working group to develop detailed procedures in 90 days giving program managers a greater voice in support resource allocation and to give them increased visibility and control over logistics support resources needed to meet schedule and readiness objectives.

On June 13, the Deputy Secretary of Defense issued a policy memorandum setting readiness and sustainability objectives and guidelines for additional front-end funding and special attention to reliability, maintainability, and support requirements.

On July 6, the Deputy Secretary of Defense issued another policy memorandum outlining an implementation plan for moving ahead in examining major programs for potential application of the concept of Preplanned Product Improvement as one means of reducing unit costs and decreasing acquisition time.

On July 22, the Secretary of Defense issued more explicit policy guidelines on central provisions for commercial insurance premium costs for Navy shipbuilding contracts.

On July 27, after lengthy discussions with members of Congress in a number of hearings, the Deputy Secretary of Defense issued a policy memorandum on increasing competition in the acquisition process. It asked that DoD managers at all levels expand their efforts to obtain maximum competition for their contractual requirements. In effect, this policy memorandum establishes a 32d decision to the original 31 of April 30.

A Deputy Secretary of Defense memorandum to OMB in early August proposed three alternative approaches to help solve the problem of budgeting for future inflation. The impact of unanticipated inflation on Defense is far more severe than on most other federal agencies because of the full funding policy for our procurement programs. The alternatives included proposals for a separate DoD inflation market basket, budgeting for inflation at OMB rates but with an understanding that DoD will submit a supplemental budget if inflation is higher than forecast, and asking Congress to budget in current dollars and cover any inflation amount later as needed. OMB-DoD discussions on this subject are continuing.

Important testimony to key congressional committees in June and July by the Secretary, Deputy Secretary, and the Under Secretary for Research and Engineering, Dick DeLauer, continued to pound the theme for major change in the acquisition process and the need for congressional support to do so.

President Reagan's tax program, that won congressional approval in late July, will help industry's capital investment problem, particularly by permitting more rapid capital equipment depreciation. This action and DoD's efforts to make its procurement and contracting policies more efficient should help industry get at its productivity problems.

A number of other major actions are underway in the services and in OSD staffs to continue the attack on the inefficiencies of the DoD acquisition process.

In a very short period of time, Secretary Weinberger and Deputy Secretary Carlucci have made the commitment and come up with a plan of action to make major improvements in the DoD acquisition system. To make it happen, not only is full and continuous support by the services and OSD staffs necessary but also the support of OMB, Congress, and industry itself.

There are critics and skeptics who are saying we've seen all this before, it's all motherhood and platitudes, nothing will change, everything will be the same one year from now.

That's what they said when President Reagan proposed his economic and tax bills to Congress a few short months ago.

Five Views on What's Wrong

The System Acquisition Assessment reviewed all major studies of the last 10 years on the subject and solicited the opinions of all major groups and key individuals involved in the acquisition process. It attempted to address as many of their comments as possible in the final recommendations. Here are the major problems with the DoD acquisition system as seen from five different perspectives as of April 1981.

CONGRESS/GAO VIEW

Services try to do too much at one time—always looking for quantum jumps in capability which cause excessive cost. There is no one in control—too much interservice competition for funds, failure to kill marginal programs, acceptance of huge cost growth and smaller procurements, all lead to congressional perception of lack of management control and clear direction.

Early cost, schedule, and performance estimates are consistently overly optimistic and highly unrealistic. . . . Contractors are permitted to "buy in" (sign a contract for less than the program cost). . . . Contractors are not held to contract requirements—contracts are too loose. . . . Readiness considerations are always secondary to hardware procurement and deployment. . . . System requirements/cost are considered as individual packages—no sense of a long-range plan for meeting mission requirements and overall cost objectives.

OSD VIEW

Too many systems competing for scarce resources. . . . Failure/inability to "weedout" low-priority programs in order to fully fund and efficiently execute the higher priority systems.

Inadequate consideration of affordability at DSARC milestones because of lack of a stable long-range plan and funding. . . . Lack of discipline of system technical requirements (gold-plating). . . . Inadequate cost/performance/quantity/schedule trade-offs during conceptual design. . . . Support and readiness inadequately addressed. . . . Acquisition cycle too long.

SERVICE VIEW

OSD milestone review process generates excess amount of paperwork and reviews. . . . Excessive micro-management of program technical issues by OSD and Congress. . . . Unrealistic demands for hard numbers and solutions "up front" when unknowns exist. . . . Lack of an effective OSD Acquisition Authority allows unchecked proliferations of directives, tasking, and uncoordinated policy. . . . Statutory responsibility of services to determine requirements unsurped. . . . Inflexible (Congressional and OMB) budgetary rules impede transition from development to production.

Disconnect from PPBS counterproductive to program stability.

PROGRAM MANAGER VIEW

Proliferation of informal service and OSD guidance. . . . Too many reviews by to many layers in both OSD and service. . . . Too many regulations and reports. . . . Costs required too far in advance of expenditure dates. . . . Control of resources disconnected from responsibility for system readiness.

INDUSTRY VIEW

Instability is caused by starts, stops, stretchouts, redirections, and inordinately long decision times. . . . Acquisition practices discourage or prevent capital formation and investment. . . . Overmanagement by the government, in particular: (1) excessive surveillance (audits, reviews, etc.) of all aspects of contractor management; (2) unproductive and costly requirements for excessive technical, final, and management data; (3) time-consuming and program-destabilizing unproductive micro-management of the acquisition process at all levels of service agencies and in OSD. . . . Overemphasis on price competition leads to lack of cost realism. (Industry perceives that final decisions are based principally on cost and that successive competitions are used to drive contract price down.) . . . Inflation guidelines used by DoD have been unrealistically low, leading to underfunding and program instability. . . . There is underfunding of all competitive phases before Milestone II (Full Scale Development). Industry underwrites the effort (a form of "buy in"). . . . Inappropriate contract types are used where major uncertainty exists; e.g., fixed price for development and early production. . . . Adversarial attitudes are held by many government personnel.

Mr. PURITANO. I think we have a good staff there and we plan to use them to assure we do better in all these areas.

Senator WARNER. You made reference to the staff. It has been my observation through the years that the Comptroller does have an outstanding staff in the Department of Defense. It was built up through the years by the many very distinguished predecessors that you have had.

What was the name of that man that was there for so many years under four or five Secretaries? Does his name come to mind? One of your predecessors served under four or five Secretaries.

Mr. PURITANO. Well, sir, it was Hitch, Anthony, or Moot.

Senator STENNIS. We thought he knew more about defense than anyone else.

Senator WARNER. No question about it. What was the other name?

Mr. PURITANO. Assistant Secretary Moot.

Senator WARNER. This gentleman preceded Moot. Moot was an outstanding gentleman.

Senator Stennis.

Senator STENNIS. I will echo what you say. I frankly think—talking about balancing the budget—a great deal could be done by just eliminating waste. That is a pretty clean word for saying fraud. It adds up to big money.

We can't go out and do that here. It is not under our direct jurisdiction, but we do have more responsibility I think than we exercise. I think we will have to do more.

I wish you well.

Mr. PURITANO. Thank you, sir.

Senator WARNER. Senator Bingaman.

Senator BINGAMAN. I do not have additional comments, Mr. Chairman.

Senator WARNER. We are pleased to be joined by Senator Thurmond.

Senator Thurmond, we have completed our opening statements and questions. Do you have any questions for the nominee?

Senator THURMOND. Thank you, Mr. Chairman.

I have looked into the witness' background. I think he is well qualified for the position to which he has been named. I believe you have asked the questions I had in mind, so I don't think I have anything further.

I will be glad to support his nomination.

Senator WARNER. Senator Thurmond, what I think we will do is include the last three questions and submit them to the witness for the record.

At this time I will entertain a motion that this committee report out favorably this nomination to the Senate as a whole.

Senator THURMOND. Mr. Chairman, I move that Mr. Puritano be confirmed and reported to the Senate.

Senator STENNIS. I second the motion.

Senator WARNER. I ask the clerk to call the roll. I will indicate that this poll will remain open until 5 p.m. today.

Mrs. DAUTH. Mr. Thurmond.

Senator THURMOND. Aye.

Mrs. DAUTH. Mr. Warner.

Senator WARNER. Aye.

Mrs. DAUTH. Mr. Stennis.

Senator STENNIS. Aye.

Mrs. DAUTH. Mr. Bingaman.

Senator BINGAMAN. Aye.

Senator WARNER. Members of the committee, while we are in session, the Chair respectfully asks that we pass on 4,696 military nominations now pending. They have been before the committee the required 7 days.

No objections have been raised. The Chair is prepared to entertain a motion that these nominations be favorably reported to the Senate as a whole.

Senator THURMOND. I move they be reported favorably.

Senator STENNIS. I second the motion.

Senator WARNER. It is so ordered.

If there are no further matters to be brought before the committee at this hearing, the hearing will be adjourned.

We thank the nominee and members of his family and others for coming today.

I hope the nominee recognizes that the outstanding quality of his record is such that other Senators felt that they had to leave that to our discretion in voting on it.

Mr. PURITANO. Thank you, sir.

Senator WARNER. I think that is a great tribute to you personally and your family for the support they have given you through the many years of your long career.

[The questions submitted by Senator John Warner to be answered for the record by Mr. Puritano follow:]

EFFICIENCY AND MANAGEMENT

Senator WARNER. You have worked in several government agencies. How would you compare the efficiency and management of DoD with these other agencies?

Mr. PURITANO. I have worked in the State Department (Agency for International Development), the Office of Management and Budget, and the Central Intelligence Agency, as well as in the Department of Defense. My responsibilities have also regularly exposed me to the management and operations of many other government agencies.

In comparing DoD to other government organizations, the most overriding impression is of the unique nature of the Defense Department. With more than 2,000,000 uniformed service personnel and over 1,000,000 civilian employees, DoD's sheer size is unmatched by another U.S. Government agency. It is organizationally complex, with four separate services and more than a dozen distinct defense agencies.

The Defense Department is more than just uniquely large, however. Its dispersed operations cover more than 1200 installations in at least 20 countries in all corners of the world. In addition, the responsibilities of DoD to maintain and defend the national security produce a widespread and hard-to-quantify set of missions. This results in a range of management issues that are at once broader and more complex than in any other organization, public or private.

This situation is exacerbated by several elements of instability that plague DoD. First, the nature of the threats to U.S. national security is subject to rapid and substantial change, which must be met as quickly as possible. In addition, the long-range nature of planning required for complex weapon systems, ships and planes, coupled with funding instability and the competing special interests which try to affect that funding (including industry and Congressional interests), only add to this management complexity.

However, even in this grand and unique atmosphere, I have found that the same principles of good management required in every organization apply to DoD. The processes for implementing those principles in DoD must be more comprehensive, and management systems must be more flexible.

The very size and complexity of DoD demand that management be decentralized to the most effective degree but the variety of organizations and missions

within the department also require a strong central policy and management focus that must be participatory in nature to assure all those who have an interest and responsibility are allowed an input to the decisions that affect them.

The current administration has worked tirelessly to improve the process of management in DoD. The Planning, Programming and Budgeting System (PPBS), the central planning and budgeting system as it now operates in the Defense Department, is more comprehensive and better integrated than before. For the first time, the PPBS allows full participation not only by the civilian and military leaders of the Services but also by the military commanders in the field. The defense weapons acquisition process is also undergoing major reform.

Management and program improvement initiative throughout DoD have begun to show positive results and have created the incentives and the supportive atmosphere for continued improvements. This effort is working because it is both a top-down and a bottom-up endeavor.

In any organization, effective and efficient management requires continuous concern and dedication. In DoD, because of its unique characteristics, this requirement is even more pervasive. In no other organization, though, have I seen people more capable and more dedicated, or a leadership more concerned with better management, than in today's Defense Department. The challange is clear, it is being met, and it will continue to be met. These are the lessons I intend to carry into my work as the Comptroller of the Department of Defense.

DoD Planning and Budgeting System

Senator Warner. What problems do you see with the planning and budgeting systems at DoD?

Mr. Puritano. We have made significant improvements to the Planning, Programing and Budgeting System (PPBS) of the Defense Department. Under this Administration, a special effort was directed toward improving the Defense Department's PPBS process early in 1981. I personally took an active role in that review and led the task force that reformed the process.

There were many problems in the then existing system related to heavy paperwork, outmoded milestone requirements and lack of total top management input to major decision meetings. The improvements launched over a year ago greatly reduced the paperwork of the Zero Based Budget procedures, provided for greater decentralization of authority to the Services, added the Service Secretaries to the top management board (Defense Resources Board—DRB) and in general streamlined the entire PPBS process.

Much remains to be done, particularly in the total Executive-Legislative budget process. Far too much time is spent by too many people, in both branches of the government, working on the specific details of budget formulation and preparation. Not enough is being done, as a result, in reviewing budget execution and program performance. I expect to concentrate on that neglected aspect of budgeting and financial management during my tenure as ASD (Comptroller).

A copy of the article I wrote explaining the major reforms in more detail is submitted for the record.

[The article follows:]

Streamlining PPBS—The Planning, Programming, and Budgeting System Had Developed a Rickety Track—Among Other Problems

(By Vince Puritano)

The Reagan Administration came into office pledged to revitalize American military strength—and to do so *in the most effective and economical manner.* This was the objective that led to the announcement last March by Secretary of Defense Caspar Weinberger of significant changes to the Planning, Programming, and Budgeting System (PPBS) of the Department of Defense.

PPBS is the complex and long-term process whereby mission needs are identified, matched with resources requirements, reviewed, and finally translated into budget proposals. By 1981, the existing PPBS had grown topheavy and congested with paperwork and detail. Planning was not in step with fiscal realities, and a proliferation of structures and data bases were working against smooth flow of the PPBS cycle. While the system was still meeting its basic objectives, it certainly was not doing so in the most effective and economical manner.

The changes that Secretary Weinberger announced in March included:

Modifying the existing PPBS to reflect a shift to greater emphasis on long-range strategic planning;

Greater decentralization of authority to the services;

Closer attention to cost savings and efficiencies.

Elimination of most of the paperwork required by the Zero Based Budget (ZBB) system;

A restructuring of DoD's top management board, the Defense Resources Board (DRB);

An increase in the responsibilities and roles of the Service Secretaries;

A change of roles and relationship between the various OSD staff agencies and the services;

A new process for management review by the Secretary of progress toward objectives in major programs;

A general streamlining of the entire PPBS.

The significant changes were begun immediately with the FY 83–87 program budget. Total implementation of the changes—particularly a fully structured strategic planning process—will take a year and will be completely effective for the first time in the preparation of the FY 84–88 budget.

These changes were recommended by an internal DoD task force, organized and led by the author of this article at the direction of Deputy Secretary of Defense Frank Carlucci, who on February 13—less than three weeks after the new Administration took over—ordered an assessment of the Department's PPBS to be completed within 30 days. The steering and working group that conducted this review consisted of uniformed and civilian DoD professionals, all with wide previous experience as well as current responsibilities in managing PPBS.

The review was organized to provide maximum participation by every major OSD staff agency and each of the services to assure that all points of view would be expressed, both in the analysis and in the decision phase of the review.

Group members drew on their own experiences, surveyed recent studies by consultants and other outside groups, took recent DoD internal review into account, and interviewed current and recently departed officials. The group analyzed the problems and issues, discussed alternative solutions, and then presented a report with recommendations and options.

This article relies heavily on the work of this group and is based in great part on their various draft reports.

PROBLEMS WITH EXISTING PPBS

The DoD PPBS process has the objective of preparing and executing a budget that is larger and more complex than any other agency in government. The quick, 30-day assessment was not designed to analyze in-depth how well this objective was being met. The existing process was accepted as basically meeting that objective. The focus of the effort was, instead, to delve into internal process problems quickly, analyze their characteristics, array and discuss the key issues, and focus on options for improvements that would make the DoD PPBS even better.

It became increasingly clear as the review progressed that the accretion over years of differing objectives and management styles calling, first, for programming emphasis, then participatory management, and recently zero based budgeting, with major characteristics of each imbedded simultaneously in the DoD PPBS, had created serious total system distortions.

The McNamara PPB system created the Five Year Defense Program (FYDP) and interposed OSD programming direction and primacy between PCS planning and service budgeting. It was developed in response to a management style and a set of circumstances which have changed markedly over the intervening years. Programming—i.e., the structuring of resources by mission—was a new concept in 1960. The military services had since incorporated programming into their own budget preparation. They had created extensive programming organizations with well-trained and experienced staffs to respond to the widespread program interests in Manpower, Reserve Affairs, and Logistics; Under Secretary of Defense Research and Engineering; Program Analysis and Evaluation; and various policy offices within OSD.

The Laird management style and resulting process of participatory management was subsequently overlaid on the McNamara PPBS. More programming initiative was given to the services but, simultaneously, there were initiatives in the opposite direction to centralize the process for acquisition. Later, the Carter Zero Based Budget (ZBB) system, which emphasized annual total review rather than stable multi-year planning and called for analyses at three fiscal levels, was added to rather than integrated with—the DoD PPB system. The combination of three disparate systems had heavily overburdened DoD staffs and aggravated the confusion of the role of staff and line functions within

OSD. The separation of JCS planning from the service budget process caused by the imposition of OSD programming was an additional problem that had not been adequately addressed.

There were two major problems in the programming and budgeting phases of the PPBS. One was the residual confusion of roles of the line and staff functions in OSD, and the other was the failure of ZBB to aid the Secretary in the management of the department while adding to the data and paperwork load.

The confusion of line and staff roles was a residual of Secretary McNamara's reliance upon OSD staff to initiate as well as review programs. Although Secretary Laird placed program initiation with the services, there were a number of subsequent countervailing influences which favored centralization. These influences included: the failure to create a credible planning system; the greatly increased demands from Congress which had created its own budget process competing with the Executive Branch and also greatly expanded its staff, and the emergence of cross-service planning for major programs. These trends encouraged continuation of OSD directive programmatic guidance to the services, generating additional paperwork and creating strong adversarial relationships between OSD and the services.

The second major programing problem was the failure of Zero Based Budgeting. The theory of Zero Based Budgeting is quite adequate for a small organization with consistent goals. It is, however, not designed for large, multi-level hierarchies where sub-units may have competitive goals. The size of the DoD forced the "rationing" of decision packages to field organizations. The competitive nature of the budget game also forced "gold watches" (high priority programs) into the margin. In addition, the ZBB features of multiple budget levels, narratives, and prioritization created large volumes of paperwork which proved essentially useless since neither the Secretary nor OMB felt that the resulting displays were useful for decisionmaking. One service estimated that traditional budgeting required the preparation of 350 reports. ZBB added approximately 800 additional reports (Decision Unit Overviews and Decision Package Sets) which did not replace the traditional budget reports. The system had not proven useful in presentations to higher levels. The ZBB concept simply had not worked.

The succession of systems also greatly expanded the data structure so that the FYDP was no longer the common, basic data base of the PPBS. A variety of competing formats, structures, and data banks evolved. This shifting of classification of defense activities and the expanding efforts necessary to respond to and maintain the various data banks led to duplication of data requests, displays, and paperwork and worker overload.

PROBLEMS IN PLANNING PHASE

The Joint Strategic Planning Document (JSPD), the most complete force planning document in the DoD PPBS, was not fiscally constrained. It usually contained higher force levels than could be accommodated within the fiscal guidance. While useful in assuring that arbitrary resource constraints do not dictate our overall military strategy, it resulted in force planning out of line with real resource constraints. In these circumstances, it became irrelevant or useless during the programming and budgeting phases.

Recognizing this problem, the JCS provided "Risk Reduction Measures" (RRM) in the last three annual planning documents. These measures recognized that the unconstrained planning force was not likely to be affordable within the mid-range (3–10 years ahead) period; they thus attempted to identify the most critical areas of risk.

In fact, however, even the JSPD risk reduction measures were of limited value. Their programmatic focus and structure (a brief description plus funding profile) tended to reflect the current programmatic emphasis, as opposed to planning emphasis, and provided poor linkage to the planning objectives, strategies, and problems with which the measures sought to deal. Also, their content suggested apportionment of risk by service dollars, rather than as assessment of total risk by functional warfare or contingency areas.

The design (i.e., sizing and structuring) and assessment of the total force could not be effectively accomplished without unambiguous, but broad, guidance on the peacetime/crisis/wartime priorities to be accorded the various missions and theater contingencies. Planning guidance (i.e., criteria and assumptions on which force size and structure are based) should be issued before force building or assessment can begin. This was done, however, on an ad hoc basis for each item of approved guidance.

Although there is a sequence of planning development from JCS and services to SECDEF culminating in the Defense Policy Guidance (DPG), there was no high-level dialogue in the process. The JCS (and other DoD policy bodies) generally were forced to rely on "literature searches" of SECDEF speeches, congressional testimony, presidential statements, and National Security Council (NSC) and State Department memorandums, directives, and policy statements to derive and develop implicit national and defense policy.

There was only sporadic articulation of short-term deficiencies bearing on theater contingencies and other missions. There was also a tendency to overestimate the potential success and stability of current programs together with the effectiveness of new systems being fielded. At the same time, there was an inadequate long-term vision and differentiation between solving short-term problems and dealing with longer-term obligations. There was also no connection between near-term contingency employment concepts based on current force capabilities and the longer-term strategies and contingency capabilities implied in the unconstrained force. There were so steps in the later phases of the PPBS that dealt with these fundamental discrepancies.

There was also a mismatch not only between stated US policies and the current capabilities of the forces to implement these policies, but also between policies and planned longer-term capabilities. In effect, DoD had traded near-term readiness for long-term investment within the relatively constrained Defense budget projections. The problems are, of course, that tomorrow's objectives expand rather than contract; threats outpace our own efforts to deal with them; and the FYDP never delivers as it promises.

PROBLEMS IN PROGRAMMING PHASE

It was generally agreed that there was an overabundance of program direction in the Consolidated Guidance and an inordinate amount of detail data being requested in the program preparation instructions. This detailed guidance resulted in military department documents that were so large as to be undigestible by any one individual. In turn, these detailed proposals, when compared to the detailed guidance, give rise to a large number of detailed issues, all of which were addressed by the DRB. Also contributing to the large number issues was the fact that DoD fiscal projections were not sufficient to fund all the objectives stated in the program guidance.

Although the DRB is the SECDEF's corporate review board, it did not include as a permanent or associate member any service representation, although the services provided observers on call. The multitude of detailed program issues, ZBB requirements, and the resultant detailed work demands on the services and the OSD staff had the effect of focusing most of the review effort on the upcoming budget year rather than on the full five-year program. Top DoD officials complained that they could do little or no realistic thinking about out-year issues and their implications.

In addition, in the middle of the program cycle, the Joint Program Assessment Memorandum (JPAM) was issued by JCS after their review of the service POMs. It was an assessment of the military risk involved in the service programs. Because of the timing of the JPAM and the tendency of the JCS not to play an active part in the programming cycle, JCS views often were not incorporated in the issue papers.

Program instability reflected some apparent shortcomings in the current programming procedures. For instance, there were 160 Priority Change Proposals (PCPs) in the last budget phase for programs that had been "decided" in the programming phase. In the Navy Shipbuilding Program, an area which by its nature should be long-term and stable, major initiatives were alternatively inserted and later dropped out as the cycle progressed. Because of the number of months the process took to come to a decision, all of the efforts by the many technical and contract offices were done and redone. Tough decisions were put on hold until the final days of the cycle.

Another symptom of overcontrol is the abundance of "major" issues. Issue papers are developed by OSD staff in at least seven areas: Strategic Forces; Theater Nuclear Forces; General Purpose Forces; Communication, Command and Control; RDT&E; Manpower and Logistics; and Intelligence. In the past PPB cycle, 150 issues were generated and 375 "thumbnail sketches" (one-page issue papers) were submitted by OSD, Office of Management and Budget (OMB), and

the Arms Control and Disarmament Agency to the DRB. Each of these papers contained a staff alternative to a service program and all had to be reviewed and discussed by various staffs during the programming cycle.

PROBLEMS IN THE BUDGETING PHASE

The end result of over one year of DoD planning, programming, and preparation of budget estimates was the presentation each year of the President's budget to the Congress. Immediately preceding this presentation, in late December, DoD experienced a phenomenon referred to as "tail-end perturbations." Sudden late changes to the budget estimates and supporting programs were brought on by late OMB and presidential decisions on fiscal levels, programs, and/or a revised inflation forecast. These new data had to be quickly incorporated into a myriad of documents without disturbing balances painstakingly developed over a course of several months. The result was often a crash series of meetings culminating in conflicting guidance and unbalanced resource allocation for some program areas. Aside from the fact that the timing, management, and impact of this annual phenomenon tended to reduce confidence in the integrity of the system, there was a persistent "ripple effect" on program justification to Congress, reorientation of policy, and implementation of budget decisions.

Excessive paperwork in the budget phase also reached the point of nearly breaking down the whole system. This has occurred in the past four years as ZBB procedures quadrupled the numbers of exhibits, listings, displays, and formats of data presentation. As a result, OSD, service, and OJCS staffs all complained of the inability to provide quality work in a timely manner.

Another major problem in budgeting has been the inability of the system to produce a consistent set of categories to describe the activities within the budget from early planning through to the congressional submissions. As a result, much time is spent in translation routines during which inconsistencies, or apparent inconsistencies, are created. When the latter occur, justification of the congressional categories is sometimes allowed to drive programmatic decisions.

The need to explain costs in appropriation categories led to the creation of large "budget back-up" or budget justification books which took information from program formats and transcribed it into other displays. Contradictions or perceived discrepancies between the various displays also generated significant workload in preparation of explanations.

SYSTEM-WIDE PROBLEMS

Revisitation of decisions regularly occurs in the current PPBS environment. Issues thought to have been decided in the programming phase were often resurrected in the budgeting phase by OSD, OMB, and the services. The vast and varied number of participants, excessive preoccupation with paperwork and details, a hectic pace, inconsistent categorizations, and the year-long demands of the process all added to the problem.

Neglect of execution was also evident. The emphasis—and the reward—for years has been in the front-end justification of programs and the obtaining of appropriations. In addition, the time of managers at all levels in DoD is focused on shepherding their programs through the various PPBS cycles. Program execution functions are generally neglected and only limited feedback to policymakers/programmers to improve subsequent cycles is built into the process.

There was a widespread perception that significant discontinuities exist between the PPBS and Defense Systems Acquisition Review Council (DSARC) processes, the two major resource decision systems in DoD. Symptoms of problems can be seen in the continual conflicts surrounding and disrupting acquisition programs, the confusion over program costs, and resulting program quantity adjustments.

Along with the problems and issues arrayed above, there was also lengthy discussions in the steering and working groups on role and membership of the DRB, and the role of OMB in the joint review.

STEERING GROUP RECOMMENDATIONS

After analyzing problems and alternative solutions, the steering group reached consensus on a number of options for improvement. The steering group endorsed:

The need for greatly improved strategic planning at the beginning of the PPBS cycle and improved long-range planning throughout the process,

The need for improved policy and strategy interaction and definitive DoD policy statement by SECDEF, JCS, and the services.

Greatly reduced and less directive program guidance,

Need for a program document but greatly reduced level of detail,

Greatly reduced issue generation for the DRB in the summer program review cycle,

Paperwork reduction in the fall budget cycle (reduction of ZBB),

Need to study data base and proliferation of mission categories, and

Full service membership on the DRB.

REVISING PPBS

After review of the steering group recommendations by the Deputy Secretary, the Joint Chiefs, the Service Secretaries, the Under Secretaries, and Assistant Secretaries, the Secretary of Defense announced his decisions for revising the entire DoD PPBS process.

The decisions, however, went much further than simply changing the PPBS. They established a broad set of management principles and philosophy that set the base for major improvement in DoD over the next few years.

These broad management principles included the management formula: centralized policy and decentralized operational responsibility to the Service Secretaries and to the services. This, in turn, means that there has to be more precisely defined responsibility and accountability for results at the operating level.

The central OSD staffs will be asked henceforth to concentrate on a more appropriate central staff function by emphasizing broad central policy guidance rather than detailed program direction as in previous years. Central analytical staffs will be expected to emphasize cross-service and cross-command analysis to better help the Secretary make the high priority decisions.

All managers at all levels in DoD will be expected to look for economies and efficiencies and savings in carrying out their responsibilities.

OSD and the services were asked to join together in improving the PPBS process in a more participative mode. More teamwork and better communications are expected throughout the planning and budget year.

The Under Secretary for Policy was asked to work closely with JCS, the services, and other OSD staffs to provide within 30 days a proposal for a greatly improved strategic planning process.

The OSD program offices were asked to change the detailed directives of the past, to concentrate on broad policy guidance, to cut the paperwork required in the POM process by 50 percent, and to greatly reduce the number of issues raised to the DRB level for decision in the programming phase.

The DRB itself was restructured to include the Service Secretaries as full members. Further, the DRB will be used more frequently, including for the first time, in the planning phase to review and approve the policy and strategy that will set the base for future program and budget decisions.

The budget phase was streamlined by reducing the mammoth paperwork requirements of the ZBB process. The concept of prioritizing programs at the margin will be kept but, with the concurrence of OMB acquired through an exchange of letters between the Secretary and the Director of OMB, the ZBB reporting requirements will be greatly reduced beginning this year with the FY 83–87 submission.

Another major decision with long-term implications is that the Deputy Secretary of Defense, with the advice of the DRB, will be responsible for total management of the new PPBS. The author, as Executive Assistant to the Deputy Secretary of Defense, was named as the Executive Secretary to the DRB to help the DEPSECDEF manage the year-long PPBS cycle, in all its aspects and to guide the implementation of the PPBS improvements.

Finally, the Deputy Secretary announced, in his March 27 implementing memorandum, that the new process was to start immediately, in the FY 83–87 FYDP. The transition to the new PPBC will take a full year particularly for the new Strategic Planning process to take hold, but as many actions as possible were to begin immediately with this year's cycle.

WHERE WE ARE NOW

The revised PPBS process has begun. The Consolidated Guidance of the past has been replaced by the Secretary's Defense Guidance (DG). The FY 83–87 DG has been drafted and reviewed by the services, OSD staffs, OMB, State Depart-

ment, and the National Security Council. During the week of May 3–7, 1981, the new, restructured Defense Resources Board met three times to discuss policy, strategy, resources, and fiscal guidance for FY 83–87.

The summer schedule for the program review has been issued, and the FY 83 POM guidance has moved in a major way toward the goals of reducing the FY 83–87 POM documentation requirements by 50 percent and becoming more of a policy guidance document. A DRB Interservice-OSD Working Group, led by the author, will scan all program issues during the summer review and select these major issues that merit full DRB attention.

ZBB is being taken down. The Comptroller is working closely with OMB on ZBB and is also leading a group to reduce the data demands and further rationalize the category and mission areas used throughout the PPB process.

In summary, in a very short period of time, the streamlining and improvement of the PPBS process is well underway toward meeting the goal of significantly improving the management of defense resources.

Increased Efficiency in DoD Operations

Senator Warner. There is a great deal of interest in increased efficiency in DoD operations. Can you make some suggestions about where greater efficiencies can be achieved?

Mr. Puritano. New efficiencies and management improvements are constantly being sought at all levels of management. The FY 1984 budget reflects about $30 billion in savings from FY 1981–1988 from acquisition and other management improvements—a $7 billion increase in savings over last year. Increased savings will be achieved through additional acquisition initiatives such as multiyear procurement and the continued cancellation and reduction of marginal programs, and operations initiatives such as reductions in administrative overhead, increased productivity and consolidation of functions. Congressional approval and support of our initiatives, such as multiyear contracts and the economic production rates, is needed if we are to achieve the savings we have estimated. I look forward to working with the Congress in realizing these savings. We will continue to pursue every opportunity for achieving greater efficiencies in the Defense program.

Late last year, I was asked to write another article for defense staffs explaining the progress we have made in the first full year of the DoD management reforms. A copy of that article is being submitted for the record.

[The article follows:]

The Weinberger-Carlucci Initiatives—How Are We Doing?

(By Vince Puritano)

Last year, DoD began a broad-scope effort to deliver more defense for the dollar and to insure a better matchup between resources and requirements.

Very early in 1981—in the first days after their appointment—Secretary of Defense Caspar W. Weinberger and Deputy Secretary Frank C. Carlucci established an overall goal: strengthen US defense posture in the most efficient manner possible. This article, written 14 months later, describes the ways that goal is being pursued.

Action aimed at the first part of the fundamental goal was swift in coming. Because of the decade-long lag in defense spending, the gap between US and Soviet military investment had begun to achieve dangerous proportions. The public supported the new President's proposed defense spending increases and, within weeks of taking office, Secretary Weinberger proposed major increases to the FY 81 and FY 82 budgets submitted by the previous Administration. Congress overwhelmingly passed those appropriations.

Concurrently with the requests for added funds, and in keeping with the second element of the overall goal, Secretaries Weinberger and Carlucci announced a series of major management improvements to assure that these funds, along with the additional increases that would soon be proposed, would be used rationally and with the highest return.

To attain the goal of improved management, major initiatives have been taken in four areas during this past year:

Strengthening and emphasizing long-range planning and strategic thinking in order to relate military policy and strategy more closely to the long-

term and changing threat while taking full advantage of our intellectual, scientific, and technological capabilities;

Streamlining the defense planning, programming, and budgeting system to stress planning, reduce paperwork, clarify the roles of central staffs and the services, and enhance the role of the Defense Resources Board;

Improving the weapons systems acquisition process by reducing costs, shortening lead times, reducing paperwork and regulations, providing for more stability in long-term-procurement, and strengthening the defense industries; and

Focusing high-level attention on a number of major improvement efforts throughout the Department to reduce costs, to eliminate fraud and waste, to reduce duplication and overlap of functions, and to develop better management practices.

As we begin our second full year of defense planning, the current recessionary economic climate, accompanied by mounting federal deficits and major cuts in domestic programs, means that, more than ever, all defense officials have to make sure that the increased defense budgets and programs are truly well managed.

STRATEGY AND POLICY FORMULATION

Defense policy and military strategy must be continually adjusted to reflect the changing world environment, to overcome obsolete concepts and thinking, and to take full advantage of US and allied capabilities. But even the best strategic thinking will be of little use unless it can be translated into concrete plans and policies and discrete budgetary choices. We have, therefore, taken actions both to improve the translation of strategic thought into policy decisions and to make greater use of intellectual efforts in informing and guiding our decisions.

The strengthened planning process insures that strategy and policy requirements are constantly before our budget officials and planners. By reorganizing the programming and budgeting system, we provided the means for strategic thought and policy to influence the operations and decisions of the Defense Department. One effect has been that major program or budget decisions are no longer based primarily on the funds available in any single budget year. Instead, the decisions are now also measured against long-term threats and needs, long-term cost projections, and the new acquisition principles, particularly multi-year procurement.

To develop the intellectual foundation for defense strategy and policy, we have instituted more effective ways of using established outside research organizations, as well as internal study, and have created a new agency, the Strategic Concepts Development Center, located at the National Defense University. This Center will take advantage of the many resources of the National War College and will provide national strategy advice to the Secretary and Deputy Secretary of Defense and the Chairman of the Joint Chiefs of Staff.

THE PLANNING, PROGRAMMING, AND BUDGETING SYSTEM (PPBS)

PPBS is the process whereby mission needs are identified, matched with resource requirements, reviewed, and finally translated into budget proposals. Over the 20 years of its existence, the defense PPBS had grown top-heavy and congested with paper work, excessive detail, and unneeded data, with too much emphasis on programming to the neglect of strategic planning considerations and professional military advice. At the request of the Secretary and Deputy Secretary, I led a comprehensive review of PPBS in mid–1981 with a view toward harmonizing our strategy with our military capabilities and streamlining our decisionmaking process. Following careful study involving the full participation of all the services and major staffs in the Office of the Secretary, the Deputy Secretary decided on a number of major changes to the DoD PPBS. The new approach enhances the participation of top DoD officials and of service line managers and insures that the military advice of the Joint Chiefs of Staff and the Commanders of the Unified and Specified Commands is heard and fully considered.

We cut back by more than half the paperwork that was required for the PPBS process. Budget documentation has also been reduced and congressional committees have been asked to reduce the paperwork requirements they have imposed. Throughout the process, our guideline has been centralized control of executive policy development with decentralized policy execution. Under that arrangement, the Service Secretaries and senior staff can concentrate on major

policy decisions in offering their advice and recommendations to the Secretary. The services have been given greater responsibility for the day-to-day management of the resources under their control. The OSD staff provides overall technical support and major mission analyses necessary to coordinate the capabilities of all the services and to meet the objectives identified by the President and Congress.

A major change has been the strengthening of the Defense Resources Board (DRB), vesting it with the authority to be the principal governing body of the Department's program review process. We can now use the full capability of the Department to formulate policy and design programs. The DRB includes the Service Secretaries as full members for the first time and makes available directly the views of the Commanders of the Unified and Specified Commands, also for the first time. The four Service Chiefs, are, in effect, de facto members of the DRB and are invited to all meetings where major policy issues are to be discussed.

In the last nine months of 1981, after the new PPBS and DRB decisions were made, the DRB met 31 times to review and decide on defense policy, strategy, planning, programs, and the budget.

As a result of the actions described above, the planning process, once characterized as the "silent P in PPBS" has been reshaped and reinvigorated. The programming phase has been streamlined and aimed more at major policy review than detailed program reviews, except for major systems, and the budget process has been improved particularly by discarding much of the unneeded paperwork associated with the Zero Based Budgeting Process. Much progress has been achieved this first year—more is necessary this second year.

THE WEAPONS ACQUISITION SYSTEM

Early in 1981, the author led another task force, at the direction of the Secretary and Deputy Secretary, to improve the acquisition process. Decisions on 32 recommendations became the basis for the Acquisition Improvement Program. One major thrust of the recommendations was to stress long-range planning so that the services, the Congress and contractors will know as far in advance as possible the full scope of each program. Another was the placing of emphasis on delegating greater responsibility and accountability to program managers in an effort to reverse the tendency towards micro-management by central staffs. The recommendations also focused on the efforts required to achieve more program stability and economical production rates. A fourth theme was the need to make doing business with the Defense Department more predictable and attractive. If we discourage innovative and efficient contractors from bidding for and participating in defense business, we will not restore a healthy, strong industrial base for military orders. A fifth group of proposed actions encouraged the use of realistic cost, budget, and funding figures so that both we and the Congress understand early what the total cost of full programs will be.

The FY 83 Defense budget that was sent to Congress on February 8, 1982, embodied a number of major decisions flowing from the Acquisition Improvement Program. To those who do not believe we can implement the 32 acquisition system decisions, I say simply: read the FY 83 Defense Budget. Consider the following:

First, we have encouraged program managers to *budget to most likely cost* and to *budget for technological uncertainty*. The FY 83 budget request includes funds in RDT&E and procurement programs to cover areas of technological risk and unspecified but anticipated requirements for changes in equipment design or program cost increases. As an example, the Army has applied $87.1 million in FY 83 RDT&E funding to 12 programs to provide for technological uncertainty and we have added several billion dollars to our major production programs so that they are funded to their most likely cost.

In addition, *front-end funding for procurement of adequate test hardware* has been emphasized to reduce further the technological risk and avoid the need for expensive retrofits which could delay deployment or reduce our readiness levels.

We have stressed *multi-year procurement* to help realize savings through economical lot buys and more efficient use of production resources. The FY 83 Defense Budget includes 15 major multi-year procurement initiatives where putting more of the total program cost earlier in the program will produce net program savings of $815.4 million over the next five years through the benefits of more economical advance procurement. It is important for the public to under-

stand that increased appropriations and outlays in the early years of multi-year contracts will let us buy the quantities planned over the full period for considerably less than the cost of those same quantities under year-by-year contracts. The chart on page 8 provides more detail.

Next, in the area of *economic production rates*, we have found many instances where capacity exists, or will be financed by industry, to produce the quantities of equipment required at higher rates and, therefore, at lower unit costs. During 1981, we held special meetings of the Defense Resources Board focused on taking advantage of the increases in efficiency and unit cost savings that can result from higher, more efficient rates. We added $3.4 billion in the FY 83 budget request to 14 selected programs in order to raise FY 83 rates to more economical levels. We have also decided on increases in the FY 81, FY 82, and the outyear (FY 84-FY 87) rates. As a result, we expect to have $2.3 billion during the next five years on just those items the previous Administration planned to buy (see chart on page 6). Of course, the higher rates will also yield additional quantities of hardware during this period.

In addition, we are including funds in our FY 83 budget request to modernize the tools, equipment, and facilities of our in-house production operations. We screen candidates for these *productivity investment* projects and select only those that will generate a significant return on investment. The chart below shows the distribution of the $121 million we are requesting in FY 83. We expect to achieve a five-year savings of $558 million with these 72 projects.

In a similar vein, we are budgeting an increased amount for *manufacturing technology* programs in order to improve factory floor productivity and thus reduce weapon system costs. The program for the next five years calls for doubling the funding for manufacturing technology from the $700 million spent in the previous five years to $1.6 billion in FY 83–87. The FY 83 budget request contains $271 million for this effort. We plan to monitor our investment closely and demonstrate the cost effectiveness of this expenditure.

Beyond encouraging investment in a modern defense industry through more stable, efficient production programs and improved investment incentives, steps are being taken to develop a *production surge capability* where economically feasible. For example, the pacing items for M–1 tank production are various components of the turbine engine and fire control system. By adding $126 million to the FY 82 M–1 tank production program, we can increase the production rate of these pacing components for the FY 82 funded delivery period. A total of 180 tank sets of pacing components could then be "banked" for use to surge M–1 production or meet other logistics requirements at some future time. There would be no additional facilitization required since the surge could be accomplished with overtime and/or multiple shifts at existing and currently programmed facilities. We have included this "surge" program in our FY 82 supplemental request and plan to add others in the coming years.

We have reviewed all programs to determine the adequacy of support funding and, during the FY 83 budget formulation, trial procedures were initiated to *improve the visibility of program support funds* in the budget. These procedures required selected program managers to provide the Office of the Secretary of Defense with separate budget backup material clearly showing all support funding required and budgeted for the program. These procedures heightened the awareness of all management levels of the interrelationship between support funds in various appropriations and other elements of program cost. I anticipate that we will expand the use of these procedures in future years.

We expect to derive additional cost savings from implementing our *pre-planned product improvement program*. The actions we have taken and plan to take under this initiative respond to the concern that we too often seek to incorporate overly advanced technology in our system. Pre-planned product improvement offers an evolutionary approach to system development that plans future system upgrades while proceeding with lower risk alternatives to meet near-term needs. This enables us to provide for rational incorporation of increasingly sophisticated subsystems developed and proven over the service life of our weapons systems. For example, under the F–16 Multinational Staged Improvement Program, improvements will be introduced into the F–16 aircraft at approximately the midpoint of production. Another program where this concept will be applied is the Army Fighting Vehicle Systems (FVS). Here, modification of fire control for TOW–2 missile integration and hardening of the vehicle against chemical, biological, and nuclear effects will be included in a block with other improvement initiatives.

A list of candidate programs for additional application of preplanned product improvements was prepared last summer. These programs are now under review in connection with initial planning for the FY 84 budget.

The changes associated with the Acquisition Improvement Program are wide-ranging. I believe that the progress we have made, including that reflected in the FY 83 budget, has been significant, considering the reforms were started less than a year ago. Many people in the Defense Department have worked mightily to help make those changes we have all recommended—it *was* an internal reform effort.

At the same time, we know that an undertaking as broad and fundamental as we have proposed will take time, since we are dealing with a way of doing business that has evolved over many years. It has been molded by industrial imperatives, statutory requirements, and bureaucratic exigencies. We recognize that the key to success is the sustained and serious interest of decisionmakers up and down the line. We are determined to continue applying the principles of economic and efficient management in our day-to-day decisions, building upon the support of those decisionmakers gained through their participation in the reform effort.

OTHER MANAGEMENT IMPROVEMENT EFFORTS

In September of 1981, the Secretary announced the creation of the *Defense Council on Integrity and Management Improvement*, chaired by the Deputy Secretary with the three Service Under Secretaries as members, as well as the Under Secretary of Defense for Research and Engineering, the Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics), and the Assistant to the Secretary of Defense (Review and Oversight). This Council has three major goals:

To explore, identify, and implement new management improvements and to expand upon and reemphasize existing programs in the Defense Department.

To spread the results of audits, inspections, and investigations throughout the Department.

To promote the exchange of ideas and information on innovative management and to provide a forum for dealing with tough management issues.

The Council has initiated a DoD-wide *Management Improvement Program* which involves all the Defense agencies as well as the services. Preliminary plans were submitted to the Council in November 1981, and programs are well underway. In most cases, the services and Defense agencies have established their management improvement programs to coordinate existing programs as well as provide a mechanism to begin developing and implementing new ideas.

The Council is reviewing each of these programs in a series of briefings at its monthly meetings, with more detailed staff-level meetings in between. These reviews have already resulted in considerable cross-feeding of ideas, particularly among the services. The top level attention and emphasis on management improvements provided by the Council has led to more than just an exchange of good ideas within the Pentagon. By creating a climate of support for better management the DoD Management Improvement Program is encouraging personnel at *all* levels to develop, suggest, and implement innovative ideas. We have only begun to tap the field-level sources of better management techniques. The potential benefits there are virtually unlimited, and we are pursuing them. For example, the Army has taken steps to spread its Economies, Efficiencies, and Management Improvement (EEMI) program throughout that service. In March, the Army held a worldwide EEMI conference bringing together representatives of all Army commands. In addition, the Army is institutionalizing the EEMI program as part of the PPBS cycle, so that results of savings will be carried into the budget cycle and can be tracked by audits.

In addition to the DoD-wide program, the Council has recently initiated major reviews of several key management areas, including:

Programs to manage and control inventory.

The program for disposal of surplus Defense Department property.

Programs to consolidate base support activities at neighboring installations.

Government-owned equipment and material currently in the possession of private contractors.

Defense Department health care delivery systems.

Appropriate Council members and their staffs are working together on these reviews to develop recommendations for achieving greater efficiency and savings. Council members are doing preliminary evaluations on nearly 50 additional

project areas where possible savings exist. Many of these potential projects are ongoing programs that are being studied to see if net benefits could be gained from a greater emphasis. Other project areas are new ideas, which the Council will continue to solicit, encourage, and develop.

The Value Engineering Programs are organized efforts to reduce costs by adopting lower-cost methods and functions that continue to meet necessary performance, safety, quality, reliability, or maintainability standards. The Council is evaluating these programs in order to see whether substantial net benefits would result from expanding the resources devoted to value engineering and similar cost-saving management functions.

The Council plays a different role in vulnerability assessments. These assessments are conducted to identify aspects of an operation or functions within an organization that are particularly susceptible to loss or damage. While vulnerability assessments are already conducted in some areas of DoD, the current emphasis is on a government-wide effort led by OMB. The Council will monitor DoD progress toward meeting vulnerability assessment goals and will help ensure that vulnerable areas are made less open to losses and damage.

The Council's emphasis on management improvements has already led to renewed efforts in existing programs and to the more rapid development of innovations in the services and Defense agencies. The climate of support for innovative management fostered by the DoD-wide management improvement efforts will increasingly produce results that will benefit the entire Defense effort.

In June 1981, Secretary Weinberger instituted a weekly *Secretarial Performance Review session.* He and Deputy Secretary Carlucci examine the current status of selected major Defense programs in some detail during these sessions. The reviews provide an informal setting in which the Secretaries may become aware of problems in time to act on them and through which they can provide immediate feedback to the responsible Defense officials.

A selection of the topics covered in the 1981 sessions of the Performance Reviews, with presenting agencies, is shown in the chart on page 11.

In 1982, the Performance Reviews will focus on selected major weapons systems as well as ongoing programs. To provide even closer review of two very critical programs, the Secretaries are following progress on the B–1 bomber and the MX ballistic missile on a continuing bi-weekly basis.

The Secretary, within the last year, has also initiated a continuing audit, inspection, and evaluation process to *eliminate waste and to prevent and detect fraud and abuse.* He established a new senior position, the Assistant to the Secretary of Defense (Review and Oversight). This official is responsible for coordinating all activities within the Department concerned with the elimination of fraud, waste, and mismanagement. He monitors and evaluates program guidance to all DOD activities on matters regarding criminal investigation programs and conducts criminal investigations, as required, in the Office of the Secretary of Defense, the Organization of the Joint Chiefs of Staff, and the Defense agencies. He oversees the Defense Audit Service and monitors the adherence of all DOD auditors to internal audit, contract audit and internal review policies and procedures. In addition, he ensures that all audit recommendations are agreed to and acted upon.

Beginning early last year, we have widely publicized a telephone hotline to help detect fraud, waste, and mismanagement in DOD programs. We have emphasized follow-up actions on these calls while guaranteeing the anonymity of the caller. This technique has proven quite effective and has led to a dramatic increase in the number of calls, 85 percent of which have resulted in useful suggestions.

The *costs of our internal operations have been greatly reduced* through elimination of unnecessary travel; reduced reliance on consultants and contract management services; reductions in base overhead; reduced purchases of unneeded equipment, supplies, and furniture; and capital investments that will increase productivity. These are the outcome of intensive reviews and hard-nosed decisions that will continue.

In addition to our own initiatives, we have examined scores of suggestions and recommendations on ways to save Defense dollars that we have received from the General Accounting Office, the Congressional Budget Office, the House Re-

publican Study Committee, various congressional task forces, and individual Members of Congress. Of course, many of these suggestions duplicate initiatives that we had already undertaken. Others have been incorporated into our management initiatives and budget.

I believe that the foregoing discussion conveys the strong sense of purpose with which we are pursuing our goal of improving DOD management. We have made solid progress in many areas, but we have far to go. I am convinced that we are going to succeed, for several reasons. First, our increased attention to long-range planning will lead to more rational decisions and more stability in our programs. Rational, stable programs are easier to support and to execute. Second, our insistence on broad participation in the review and decisionmaking process will capture and hold the attention of managers at all levels. Finally, our principle of decentralizing responsibility, authority, and accountability will intensify the focus on execution of programs. In the final analysis, better program execution holds the key to the success I am predicting.

Our resource management system is really a PPB*E*S, where the "E" for execution serves to remind us that our work is not ended with the allocation of resources. On the contrary, it is only just beginning at that point in the process. The efficient execution of plans and programs is where we get the return on our investment and it is also where we will be judged by the public. Officials at all levels must understand completely the part they play in this process. There has been in recent years a raging debate about the virtues and vices of leadership versus management, but the plain fact is that, while some are expected to be leaders, we are all managers of resources. It is not a role to be denied, but a responsibility to be fulfilled.

We must do our job in a thoughtful, businesslike fashion, and we must see to it that the American public becomes aware of what we are doing *right*. That is our responsibility and it is an important one, because there are plenty of people who make their living telling about those instances where we fall short.

We have a sound program for management improvement. We need the combined effort of all Defense Department officials to make it the success it can be.

[Whereupon, at 2:35 p.m., the committee proceeded to other business.]

(The nomination of Vincent Puritano was reported to the Senate by Senator Warner on February 22, 1983, with the recommendation that the nomination be confirmed. The nomination was confirmed by the Senate on February 24, 1983.)

O